



Audit Report



OIG 04-008

Audit of the Office of D.C. Pensions' Financial Statements for
Fiscal Years 2003 and 2002

November 20, 2003

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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OFFICE OF
INSPECTOR GENERAL

MEMORANDUM FOR **MARY BETH SHAW**, DIRECTOR
OFFICE OF D.C. PENSIONS

FROM: William H. Pugh, *William H. Pugh*
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audit of the Office of D.C. Pensions' Fiscal
Years 2003 and 2002 Financial Statements

I am pleased to transmit the attached audited Office of D.C. Pensions (ODCP) financial statements for fiscal years 2003 and 2002. We contracted with the independent certified public accounting firm of KPMG LLP, an Independent Public Accountant (IPA), to audit the financial statements of ODCP as of September 30, 2003 and 2002 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*.

The IPA issued the following reports, which are incorporated in the attachment:

- Independent Auditors' Report on Financial Statements;
- Independent Auditors' Report on Internal Control over Financial Reporting; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

In its audit of ODCP, KPMG LLP found:

that the financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America,

- no matters involving internal control and its operation that are considered material weaknesses, and
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control; or a conclusion on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report dated November 5, 2003 and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

U.S. DEPARTMENT OF TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS

Financial Statements

September 30, 2003 and 2002

(With Independent Auditor's Report Thereon)

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Financial Statements

Table of Contents

	Page
I. Management's Discussions and Analysis	1
II. Independent Auditors' Report on Financial Statements	18
III. Financial Statements:	
A. Consolidated Balance Sheets	20
B. Consolidated Statements of Net Cost	21
C. Consolidated Statements of Changes in Net Position	22
D. Combined Statements of Budgetary Resources	23
E. Consolidated Statements of Financing	24
IV. Notes to Financial Statements	25
V. Supplementary Schedules	
A. Consolidating Balance Sheets	40
B. Consolidating Statements of Net Cost	41
C. Consolidating Statements of Changes in Net Position	42
D. Combining Statements of Budgetary Resources	43
E. Consolidating Statements of Financing	44
F. Supplemental Information – Consolidating Intra-governmental Balances	45
G. Investments in GAS Securities – Net By Fund	46
H. Investments in GAS Securities – Net By Fund and Maturity	47
I. Administrative Expenses – By Fund	48
J. Pension Expense – By Fund	49
VI. Independent Auditors' Report on Internal Control over Financial Reporting	50
VII. Independent Auditors' Report on Compliance with Laws and Regulations	52

OFFICE OF D.C. PENSIONS

*Office of the Assistant Secretary for Management
and Chief Financial Officer
Departmental Offices, U.S. Department of the Treasury*

FY 2003 MANAGEMENT'S DISCUSSION AND ANALYSIS

Mission Statement

The mission of the Office of D.C. Pensions is to implement the Secretary's responsibilities under Title XI of the Balanced Budget Act of 1997, Pub. L. 105-33 (111 Stat. 251, 712), as amended, by making timely and accurate federal benefit payments associated with the District of Columbia Retirement Programs for police officers and firefighters, teachers, and judges.

I. Introduction

A. Statutory Basis and Responsibilities

Under provisions in the Balanced Budget Act of 1997, as amended (the Act), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under specific District of Columbia (District) retirement plans. The Act was enacted August 5, 1997, with an effective date of October 1, 1997.

The annuitant population includes retired District police officers, firefighters, and teachers based on service accrued through June 30, 1997 (pre-97) and retired judges regardless of when service accrued.

Treasury's responsibilities for the specified population include: 1) making accurate and timely benefit payments; 2) investing fund assets; and 3) funding pension benefits. To carry out these responsibilities, Treasury engages in a wide range of complex activities including legal, policy, and operational analysis; actuarial, audit, accounting, investments and financial reporting; benefits administration; information technology; and procurement services.

All benefit payments that are the responsibility of the Treasury under the District retirement programs are referred to herein as Federal Benefit Payments. All benefit payments to which an individual is entitled under the District of Columbia Replacement Plan are referred to as District Benefit Payments.

B. Organizational Structure and Staffing

Treasury's responsibilities are carried out by the Office of D.C. Pensions (the Office) in the Office of the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). The ASM/CFO reports through the Deputy Secretary to the Secretary of the Treasury.

The Office is staffed in a quasi-matrix management arrangement comprised of the core program office and supplemented by staff from other Treasury offices that provide expertise in the areas encompassed by the Act. These offices are General Counsel, Procurement Services Division, Personnel Resources Division, and the Chief Information Officer.

Pursuant to an inter-agency agreement, administrative accounting for the Office is performed by the Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC), in Parkersburg, West Virginia. ARC also performs payroll services, system administration and system hosting for the System to Administer Retirement (STAR) integrated pension/payroll system.

As of September 30, 2003, 21 Treasury positions were funded from the District of Columbia Federal Pension Liability Trust Fund (Trust Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund).

II. D.C. Pensions Program

A. Strategic Goals

The Department of the Treasury has five strategic goals:

- Promote Prosperous U.S. and World Economies
- Promote Stable U.S. and World Economies
- Preserve the Integrity of Financial Systems
- Manage the U.S. Government's Finances Effectively (*)
- Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury (**)

For Fiscal Years 2003 – 2005, the Office has four strategic goals that link to two of the Department's five strategic goals (identified by * and ** above). Below are the four Office goals:

- * Ensure all Federal Benefit Payments are accurate and timely
- * Ensure the effective management and/or investment of funds in the custody of the Treasury
- * Improve customer satisfaction
- ** Improve employee satisfaction

The Office has targets and measures in place to meet our strategic goals. The following table displays the link between our Office goals and the two Department goals. In addition, the table identifies targets and measures, as well as FY 2003 results, for each Office goal.

B. Strategic Goals and Performance Targets, Measures, and Results

Fiscal Years 2003 – 2005				Fiscal Year 2003
Department's Strategic Goal	D.C. Pensions Strategic Goal	D.C. Pensions Performance Target	D.C. Pensions Performance Measure	D.C. Pensions Performance Results
Manage the U.S. Government's Finances Effectively	Ensure all Federal Benefit Payments are accurate and timely	Make funds available to pay benefits and expenses when due	Provide funds timely to the D.C. to make payments monthly Maintain adequate cash balances and maturing securities to meet monthly obligations	During FY 2003, Treasury funded benefit payments and refunds of employee contributions from the assets of the Trust and Judicial Retirement Funds on all due dates requested by the D.C. During FY 2003, Treasury paid \$455 million in benefit payments and refunds of employee contributions. The Office achieved this goal in FY 2003, with no exceptions.
		Implement a pension/payroll system to improve processing time and accurately determine Federal Benefit Payments	Implement automated system and validate accurate performance	The System to Administer Retirement (STAR) Release 1 was implemented in December 2002 and made the first payments to judges in January 2003. STAR Release 2 was implemented in September 2003 and made the first payments to police officers, firefighters, and teachers who retired before July 1997 in October 2003. STAR Release 3, covering the Post-97 population and their survivors, will be implemented based on a schedule to be developed.
	Ensure the effective management and/or investment of funds in the custody of the Treasury	Invest funds in accordance with Treasury policies	Invest all available funds promptly Review and update investment policies annually	All available cash was fully invested in FY 2003, with no exceptions. The Office reviewed investment policies for the Trust Fund, the Supplemental Fund, and the Judicial Retirement Fund and provided updated investment guidance to BPD for the FY 2003 appropriation and FY 2004 investments.
		Obtain an unqualified opinion on financial statements	Auditors issue an unqualified opinion	KPMG LLP, an independent auditor, rendered an unqualified opinion on the Office's financial statements for FY 2003.
		Provide actuarial information to update investment strategies and determine annual deposits to the Supplemental and Judicial Retirement Funds	Issue actuarial report on timeline to meet audit report requirements	During FY 2003, the enrolled actuary issued a report as of October 1, 2002, providing the amount of the deposits to be made to the Supplemental and Judicial Retirement Funds and data necessary to manage, on a timely basis, the investment of funds. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program. Based on actuarial information and analysis of administrative expenses, Treasury deposited \$269.2 million and \$6.7 million, respectively, into these funds and immediately invested these amounts in non-marketable Treasury securities, as required by the Act.

Fiscal Years 2003 – 2005				Fiscal Year 2003
Department's Strategic Goal	D.C. Pensions Strategic Goal	D.C. Pensions Performance Target	D.C. Pensions Performance Measure	D.C. Pensions Performance Results
Manage the U.S. Government's Finances Effectively (continued)	Ensure the effective management and/or investment of funds in the custody of the Treasury (continued)	Achieve goals of President's Management Agenda	<p>Provide financial information timely and integrated with operational strategies and resource planning</p> <p>Implement corrections identified in FMFIA report and other reviews</p> <p>Correct erroneous benefit payments as identified</p>	<p>The Office's financial information was submitted timely and was integrated with resource planning. The Office used detailed expense reports to manage the operations.</p> <p>The Office completed major benefits administration error corrections. No new material weaknesses were identified.</p> <p>A detailed discussion of accomplishments appears in Section II. F.</p>
		Implement a pension payroll system to improve processing time and accurately determine Federal Benefit Payments	Implement automated system and validate accurate performance	The System to Administer Retirement (STAR) Release 1 was implemented in December 2002 and made the first payments to judges in January 2003. STAR Release 2 was implemented in September 2003 and made the first payments to police officers, firefighters, and teachers who retired before 1997 in October 2003. STAR Release 3, covering the Post-97 population and their survivors, will be implemented based on a schedule to be developed.
	Improve customer satisfaction	Provide annuitants with retirement plan information that is clear, concise and accurate	Continue to maintain and provide accurate and current information	<p>The D.C. Office of Pay and Retirement Services (OPRS) processes new retirement benefit calculations. OPRS shares Treasury's commitment to deliver a correct benefit payment to each annuitant on a timely basis. The Office conducted a quality assurance review of the majority of new benefit calculations for FY 2002 and FY 2003. The Office and OPRS worked together to resolve discrepancies in benefit calculations and make the necessary adjustments.</p> <p>The Office created the STAR Bulletin, a newsletter for annuitants. The first issue was mailed in August 2003 to the over 11,000 individuals who were serviced by STAR beginning in September 2003.</p> <p>Prior to conversion of annuitants from the legacy system to STAR, the Office mailed a comprehensive information package to annuitants explaining the changes they would encounter. Mailings were sent to judges in December 2002 and to teachers, police officers and firefighters who retired prior to July 1997 in September 2003.</p>

Fiscal Years 2003 – 2005				Fiscal Year 2003
Department's Strategic Goal	D.C. Pensions Strategic Goal	D.C. Pensions Performance Target	D.C. Pensions Performance Measure	D.C. Pensions Performance Results
Manage the U.S. Government's Finances Effectively (continued)	Improve customer satisfaction (continued)	Develop a comprehensive customer service plan	<p>Implement a customer service plan through a comprehensive outreach to stakeholders and annuitants</p> <p>Develop customer service standards for the benefits administrator</p>	<p>The Office worked collaboratively with employee and retiree representatives on a regular basis to ensure consideration of customer needs and preferences. The Office focused on improvements in customer service in FY 2003 through error corrections and improved communications with all stakeholders.</p> <p>Summary Plan Descriptions were distributed in October 2002. Office and OPRS staffs addressed the resulting influx of questions from customers.</p> <p>The Office assisted OPRS in an organizational realignment to provide more effective customer service. The Office has established customer service standards in quality control and communications.</p>
Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury	Improve employee satisfaction	Develop staff through performance plans supporting the Office's goals	<p>Ensure each employee has a current Individual Development Plan (IDP) consistent with Office goals</p> <p>Performance reviews are conducted quarterly and feedback is provided timely</p>	<p>Each Office employee has a current IDP consistent with Office goals.</p> <p>Performance reviews are conducted quarterly. Supervisors provide feedback to employees on a timely basis.</p>

C. D.C. Pensions' Program Reviews

Between 1998 and 2001, several organizations reviewed the District's policies, practices and operations for processing and maintaining retirement records, and serving employees and annuitants. Together, Treasury's Deputy Chief Financial Officer (May 1998), Accenture (September 1998), the Office of Personnel Management (September 1998 and March 2001) and Mercer Human Resource Consulting (November 1998) made approximately 80 recommendations for improving various aspects of retirement administration and customer service. Many of these recommendations were consistent with the Office's and the District's analyses of the pension programs. In addition, most of the recommendations were consistent with the Office's established performance goals and targets (noted above).

By the end of FY 2003, the Office and its District partners, primarily the Office of Pay and Retirement Services (OPRS), had fully or partially addressed approximately 85% of the recommendations. Some of the remaining tasks include changes to the District Code and/or District policies and resources that are beyond Treasury's authority to resolve independently. The Office is working with its District partners to continue to implement the remaining recommendations, none of which involve material weaknesses.

D. Implementation of the System to Administer Retirement (STAR)

Treasury and the District are working to implement the System to Administer Retirement (STAR). STAR supports the retirement business process, streamlines the administration and payment of pension benefits, and supports enhancements in customer service. STAR is based on a minimally customized version of PeopleSoft's off-the-shelf software for human resources, pensions, and payroll administration.

The Office implemented the first release (Release 1) of STAR in December 2002 to serve all annuitants of the Judges' Retirement Plan. The Office implemented the second release (Release 2) of STAR in September 2003 to serve approximately 11,000 teachers, police officers and firefighters who retired before July 1997. The Office is planning for future STAR releases to achieve full functionality and to serve the remaining annuitants who retired after June 1997 (post-97).

E. Customer Service

The Office is committed to providing excellent customer service to our external and internal customers.

1. External Customers

To ensure the satisfaction of our external customers -- retired District police officers, firefighters, teachers, and judges, and their survivors -- the Office continues to work collaboratively with our partners at OPRS, the D.C. human resources offices, and the D.C. Retirement Board (DCRB). During FY 2003, the Office focused on several initiatives that provided benefits to our external customers. The Office:

- a) implemented an accurate, more user friendly pension/payroll system -- STAR -- which enables retirement examiners to quickly access annuitant information and provide annuitants with real-time customer service;
- b) mailed information packages to annuitants in advance, providing them with notice that their checks or direct deposits and their earnings statements would reflect changes as a result of implementing the new system;
- c) distributed new Summary Plan Descriptions (SPDs) to annuitants and active employees, providing them with up-to-date, accurate, and comprehensive information on plan benefits and features;
- d) provided guidance to OPRS requiring them to notify annuitants in advance and provided a detailed explanation of any changes to their monthly benefit payment;
- e) helped OPRS reorganize and establish a dedicated customer service function to assist annuitants who have benefit questions or personal information changes; and
- f) assisted the OPRS team to: a) inventory the retirement files to ensure that every retiree, including survivors, has a retirement file; and b) identify misfiled files, missing files, and/or files of retirees/survivors who are not receiving benefits due to loss of eligibility (e.g., death, marriage, etc.). The Office documented and implemented a standardized procedure for filing retirement files for life changing events (e.g., survivors, name changes, and status changes). Internal controls were established to ensure that the procedures are being followed.

2. Internal Customers

The Office defines our internal customers as our partners in the District and at Treasury, including Office employees. During FY 2003, the Office improved internal customer satisfaction through the following initiatives:

- a) The Office worked closely with the OPRS team to coordinate STAR implementation and provide STAR training, realign staff, and develop new business practices.
- b) Management worked with each employee to achieve Office goals, to attain their professional goals through training and development, and to review performance on a quarterly basis.
- c) The Office's Contracting Officer Technical Representatives conducted a workshop to share knowledge and experience in managing contracts and contractors. Topics included lessons learned, the use of work breakdown structures, financial reporting, "practical" practices, and how to improve future acquisitions.
- d) Office staff worked with management in areas they identified through the FY 2003 Gallup survey as needing improvement. The survey was intended to determine the level

of employee satisfaction with employee responsibilities, supervision, and working conditions.

- e) As part of the Office's efforts around the Gallup survey, management and staff participated in a Knowledge Management workshop. Discussions included identification of key skills required to meet the Office's mission and development of a skills inventory. A self-evaluation tool was developed to help staff and supervisors communicate job knowledge and identify gaps. The tool evolved from group discussions around functional areas, and behavioral and technical competencies. The result is a matrix of job functions across competencies in which each employee will provide a self-assessment of their skill level. The completed matrix will then be used to facilitate discussions between the employee and supervisor on interest areas, individual development needs, organizational needs, and performance goals. The data can be anonymously summarized to help management view and understand the depth and breadth of workforce skills.

F. Correction of Erroneous Payments

The Office determined that the District had been using incorrect methods to calculate monthly Federal Benefit Payments for some annuitants. The errors were related to both overpayments and underpayments. The Office developed a strategy to correct both types of errors.

The Office engaged in error correction projects in FY 2003 with respect to the statutory:

- (1) purchase of service provisions (judges); (2) military service provision (police officers and firefighters); (3) minimum survivor annuity provision (police officers and firefighters); and (4) survivor benefit elections provision (teachers). These are discussed below:

1. Application of Statutory Purchase of Service Provisions (Judges)

The Office determined that the District had been using incorrect methods to calculate the cost for judges to purchase credit for non-judicial service. The Judges' Retirement Plan allows judges to elect to receive service credit for certain military and civilian service with the U.S. Government. If a judge received a lump sum payout from another civilian retirement plan for service that is creditable, the judge must deposit 3.5% of his or her basic pay for each year of service to obtain credit for the service under the judges' plan.

The judge must also pay interest on the deposit for the period from when the service ended to the date when the deposit is made. Until 1980, the interest rate was 3%. From 1980 on, the interest rate is a variable rate tied to the performance of the fund in which plan assets are held. The District continued to charge 3% after 1980, which resulted in judges who purchased service credit receiving full credit without paying the amount of interest required by statute. Other errors included the use of an incorrect interest period, the application of incorrect interest during the installment period, and minor calculation errors.

Since October 2001, at the Office's direction, active judges who initiate a purchase of service pay the correct amount of interest. The Office is in the process of resolving the issue of past purchases of service which are incomplete.

2. Application of Statutory Military Service Provision (Police Officers and Firefighters)

By District law, determination of retirement benefits for District police officers and firefighters may include credit for military service performed after 1956. However, if the retiree is also eligible for Social Security full retirement age or disability benefits based upon his or her wages and self-employment income, the retirement benefit from the District Retirement Plan must be recalculated to remove the portion of the benefit derived from the military service. Recalculation must occur when the retiree reaches the age to begin receiving full Social Security benefits (65+, depending on date of birth). Prior to FY 2003, the District had not performed the necessary recalculations.

In FY 2003, the District completed recalculations of benefits for 254 annuitants. Past overpayments total approximately \$1.2 million. The District communicated to the annuitants the reduction going forward and plans at a later date to communicate the amount of the debt owed and the avenues available to the annuitants for reconsideration, waiver and compromise.

Going forward, the STAR pension/payroll system will be programmed to flag members who reach Social Security eligibility age so the annuities will be adjusted before any overpayments are made and the annuitants receive sufficient notice of the adjustment.

Representatives of District police officers and firefighters are seeking legislative relief to restore the post-56 military service for affected annuitants. Proposed legislation (HR 3054) would enable active and retired plan members to purchase post-1956 military service in a manner similar to that available to federal employees.

3. Application of Statutory Minimum Survivor Annuity Provision (Police Officers and Firefighters)

District law mandates a minimum annuity for survivors of the members of the Police Officers' and Firefighters' Retirement Plan. In some cases the District failed to include special pay in the calculation of the minimum survivor annuity as required by statute.

In FY 2003, completing a project begun in FY 2002 affecting 103 annuitants, the Office and the District corrected annuity payments and issued retroactive payments of approximately \$29,000 to 24 survivors.

4. Application of Statutory Survivor Benefit Elections Provision (Teachers)

The teachers' retirement application, used by the District until June 2001, omitted the partial survivor annuity option. The omission of the partial survivor option may have denied certain survivors opportunities to receive annuities and may have given certain retirees lower annuities than they would have preferred. Also, retiring teachers were not told that they must elect at least a partial survivor annuity for their spouses to remain eligible for health care coverage after the teachers' death. Based on documents and computation tools the Office developed for the D.C. Public Schools, since May 31, 2001, retiring teachers have been offered the correct options.

In FY 2003, the Office continued the project begun in FY 2002 to offer annuitants who retired before May 31, 2001, the opportunity to apply for a partial survivor annuity for their spouses. The Office determined that 172 of the 253 applications were legally sufficient.

Retirees requesting a change in the survivor benefit election were effectively electing a new retiree benefit, retroactive to the annuity commencement date. Retirees who had initially elected a full survivor annuity became underpaid after electing a partial survivor annuity. The Office paid a total of \$550,000 in retroactive payments to these retirees for underpayments created by electing a partial survivor annuity.

Retirees who had initially elected no survivor annuity became overpaid after electing a partial survivor annuity. The Office initiated collection of post-October 1997 overpayments, subject to waiver, compromise or termination of collection activity. In FY 2003, 90 retirees made lump sum payments or began offset payments for amounts owed totaling approximately \$176,000.

G. Future Focus

The Program will plan for and achieve the major activities summarized below:

1. Calculate the Split Benefit and End the Interim Benefits Period

The interim benefits period began on October 1, 1997, and ends on the date Treasury notifies the District that a trustee or Treasury will assume the duties of benefits administrator. Prior to ending the interim benefits period, the Program must be able to calculate federal and District benefit payments for members of the Police Officers' and Firefighters' and Teachers' Retirement Plans who retired after June 30, 1997, and are due a split (federal/District) benefit. Split benefit calculations are complex and will be based on a detailed set of regulations issued by Treasury in December 2001. These regulations are not effective until Treasury formally ends the interim benefits period. We will develop a vehicle to calculate split benefits for members who retired between June 30, 1997, and the date that we implement Release 3 of STAR. We will use Release 3 of STAR to calculate split benefit amounts going forward.

2. Implement STAR Release 3

As noted above, STAR Release 3 will include the post-97 population and survivors. STAR Release 3, will be implemented based on a schedule to be developed.

3. Prepare Final Reconciliation

The final reconciliation will occur when the interim benefits period ends and will account for all transactions during the interim benefits period. The final reconciliation will include an accounting of the amounts related to federal and District responsibilities for benefits paid to plan members who retired after June 30, 1997. After October 1, 1997, and prior to June 1999, the District of Columbia Retirement Board (DCRB) managed Treasury assets and paid federal benefits on Treasury's behalf. Treasury took over management of the assets in June 1999 and began paying federal benefits and District benefits on the District's behalf. Pursuant to the First Amended and Restated Memorandum of Understanding (MOU) Concerning Interim

Administration of Retirement Programs, as amended September 30, 2000, the DCRB reimburses the Trust Fund annually for estimated District benefit payments made by Treasury for the prior fiscal year.

In Section 10 of the MOU, Treasury and the District agreed on the approach and requirements of the final reconciliation. The major requirements are that: 1) the District and DCRB provide audited reports of their transactions affecting the retirement funds during the interim benefits period; and 2) Treasury calculates split benefit payments for plan members who retired during the interim benefits period and reconcile these payments with amounts actually paid by the District to Treasury during the interim benefits period. The final reconciliation will identify amounts owed to Treasury by the District and vice-versa. In the meantime, the Program continues to monitor monthly disbursement requests from the District for benefit payments and has been working with the District and contractors to correct all known errors in benefit payments.

4. Improve Debt Collection Operations

The Program has engaged BPD to improve the District's debt collection operations. Under a reimbursable agreement covering payroll support and system hosting services, the Program tasked BPD with implementing interim debt collection regulations covering federal benefits. The Program also entered into a Memorandum of Understanding with the District under which the Program agreed to provide assistance to the District in executing its debt collection operations.

The District, as benefits administrator, will continue to identify and take initial steps to collect overpayments. BPD will collect overpayments to annuitants under all three plans.

BPD expects to implement a commercial-off-the-shelf software product to support its debt collection activities. We are informed that the District is planning to issue regulations that will enable the District to use the same process required by federal regulations, thereby simplifying debt collection administration across the District retirement plans.

III. Financial Highlights

A. *Pension Funds*

The Act established three funds in Treasury to be the source of Federal Benefit Payments:

- **The District of Columbia Federal Pension Liability Trust Fund (Trust Fund)** makes Federal Benefit Payments and pays necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The Trust Fund is not a typical pension fund in that it is not a perpetual fund and does not receive employee and employer contributions. The Trust Fund receives annual payments from DCRB (see III. F. below) and earns interest on investments.
- **The Federal Supplemental District of Columbia Pension Fund (Supplemental Fund)** accumulates funds to finance Federal Benefit Payments and necessary

administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. Pursuant to the Act, the funds held in the Supplemental Fund are not available for use until the Trust Fund has been depleted. The sources of funding for the Supplemental Fund are the annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities, and interest earned on investments.

- **The District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund)** accumulates funds to finance Federal Benefit Payments and necessary administrative expenses of the Judicial Retirement Fund. There are three funding sources for the Judicial Retirement Fund: employee contributions, an annual federal payment amortizing the unfunded liability assumed from the District, and any additional liabilities, and interest earned on investments.

The financial highlights of the pension funds for FY 2003 and FY 2002 are:

Pension Funds FY 2003 and 2002 Financial Highlights (\$Millions)								
	Trust Fund		Supplemental Fund		Judicial Fund		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Receipts:								
Interest	\$120.8	\$141.6	\$69.5	\$58.5	\$5.2	\$5.0	\$195.5	\$205.1
Reimbursement from DCRB	\$6.7	\$4.6					\$6.7	\$4.6
Deposits from General Fund			\$269.2	\$251.7	\$6.7	\$6.7	\$275.9	\$258.4
Deposits/Contributions from Plan Participants					\$0.5	\$0.5	\$0.5	\$0.5
Net Investments (9/30):	\$2,107.8	\$2,463.0	\$1,738.8	\$1,402.5	\$95.8	\$90.6	\$3,942.4	\$3,956.1

B. Investments

Each Fund is invested in non-marketable Treasury securities, as required by law. BPD invests the assets of the pension funds based on investment guidance from the Office. The Office follows a “ladder” approach, scheduling maturities in amounts sufficient to meet the obligations projected by annual actuarial valuations.

C. Benefit Payments

Beginning in June 1999, Treasury funded benefits from the Trust Fund and the Judicial Retirement Fund. In FY 2003, federal benefits were paid to approximately 13,400 retirees and survivors. In addition, approximately 7,200 active employees who are members of the retirement plans have accrued federal benefits. In FY 2002, federal benefits were paid to approximately 13,300 retirees and survivors. Another 7,600 active employees who are members of the retirement plans had accrued Federal benefits. Total federal benefits and refunded employee contributions were \$455 million and \$446 million during FY 2003 and FY 2002,

respectively. These payments are expected to be approximately \$480-525 million per year in FY 2004 through FY 2008.

D. Actuarial Valuations

- As estimated by the actuarial valuation performed by Deloitte and Touche (Deloitte) as of October 1, 2003, the Federal Government's total liability for Federal Benefit Payments to the Police Officers' and Firefighters', and Teachers' Retirement Plans was approximately \$8.2 billion. Of the \$8.2 billion actuarial liability, approximately \$3.9 billion is funded by existing assets of the Trust and Supplemental Funds and \$4.3 billion is unfunded. As of October 1, 2002, Deloitte determined the Federal Government's total liability for Federal Benefit Payments to the Police Officers' and Firefighters', and Teachers' Retirement Plans to be approximately \$8.3 billion, of which approximately \$3.9 billion was funded by existing assets in the Trust Fund and Supplemental Fund, and approximately \$4.3 billion was unfunded.
- The FY 2003 actuarial valuation projected a peak in annual Federal Benefit Payments for the Police Officers' and Firefighters', and Teachers' Retirement Programs of approximately \$588 million in year 2020 before beginning a gradual annual decline. Deloitte projected that the assets in the Trust Fund would last into FY 2008, after which the assets in the Supplemental Fund will be used to pay benefits.
- For the Judges Retirement Plan, Deloitte determined an actuarial liability as of October 1, 2003, of \$128.2 million. Of the \$128.2 million actuarial liability, approximately \$99.1 million is funded by existing assets of the Judicial Retirement Fund and \$29.1 million is unfunded. As of October 1, 2002, Deloitte determined an actuarial liability of \$118.3 million, of which \$93.7 million was funded by existing assets of the Judicial Retirement Fund and \$24.6 million was unfunded. The FY 2003 actuarial valuation projected that annual Federal Benefit Payments for the Judges' Retirement Plan will grow to approximately \$13.4 million in 2020, and will continue to increase for the foreseeable future.

Treasury is required to make annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the Supplemental Fund to amortize the original unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years; the net experience gains or losses over 10 years; and any other changes in actuarial liabilities over 20 years, and amounts necessary to fund covered administrative expenses for the year. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program. Consistent with the Act, these deposits are made in September each year and are invested in non-marketable Treasury securities with maturities consistent with the expected payment dates of the pension liabilities.

As required by the Act, when the Trust Fund is depleted, the Supplemental Fund will take over funding federal annuities for retired District police officers and firefighters, teachers, and their survivors.

E. Administrative Expenses

Treasury must fund all expenses incurred to support the federal responsibilities under the retirement programs since October 1, 1997, the effective date of the Act. Treasury pays expenses from the Trust Fund and the Judicial Retirement Fund, allocated to the Funds in accordance with the benefits derived. For expenses related to activities that benefit all of the retirement programs, expenses are allocated 90% to the Trust Fund and 10% to the Judicial Retirement Fund. When expenses benefit only one group or the other, or when a different allocation is clearly appropriate, expenses are charged accordingly.

The District is responsible for benefits administration until the Secretary selects a trustee or determines that Treasury will assume the trustee's functions. The MOU provides for the continued interim administration of the retirement programs by the District on Treasury's behalf. Treasury reimburses the District for expenses incurred in administering the federal benefits.

Administrative expenses totaled approximately \$17.7 million for the Trust Fund and \$1.3 million for the Judicial Retirement Fund for FY 2003. In FY 2002, administrative expenses totaled approximately \$11.7 million for the Trust Fund and \$1.9 million for the Judicial Retirement Fund. The major administrative expenses of the D.C. Pensions Program were for reimbursement of District administrative expenses, Treasury staff salaries and benefits, and vendors engaged by the Office to provide benefits administration services. During FY 2003, Treasury incurred \$1.9 million of reimbursable expenses with the District, compared with \$1.6 million in FY 2002.

The increase in FY 2003 administrative expenses as compared to FY 2002 was due primarily to the contract support required for correcting past errors in benefit determinations, implementing statutory benefit changes (e.g., longevity pay for police officers), performing a quality control review of benefit determinations, conducting an Independent Validation and Verification of the new STAR pension/payroll system under development, and non-capitalized costs related to the development of the STAR pension/payroll system.

Certain other costs of the STAR pension/payroll system for hardware, software, and system development were capitalized as equipment and internal use software. The Office has been amortizing -- since January 2003 in the Judicial Retirement Fund, and since September 2003 in the Trust Fund -- direct costs incurred to develop STAR that were previously capitalized. Capitalized costs in the Trust and Judicial Retirement Funds will be amortized monthly on a five-year schedule.

F. District Reimbursement to the Treasury

Because the District's automated system does not currently have the capability to calculate split benefit payments, Treasury is funding all benefit payments under the Police Officers' and Firefighters' and Teachers' Retirement Plans. Pursuant to the MOU, the District reimburses the Trust Fund annually for estimated District Benefit Payments made by Treasury for the prior fiscal year. In January 2003, DCRB reimbursed Treasury \$6.7 million for estimated District Benefit Payments paid in FY 2002 by Treasury on the District's behalf.

In January 2004, DCRB will reimburse Treasury for estimated District Benefit Payments paid by Treasury on the District's behalf during FY 2003. The DCRB's actuary will determine the reimbursement amount. At this time, based on the actuarial valuation as of October 2003, the actuary estimates the amount of the reimbursement to be \$8.5 million.

This process will be repeated for fiscal years in which Treasury pays District Benefit Payments until the STAR system is fully operational for the Police Officers' and Firefighters' and Teachers' Retirement Plans. Thereafter, benefit payment splits will be calculated, and the DCRB will fund District Benefit Payments on a monthly basis.

G. Prompt Payment

The Office paid all invoices received within the timeframes required by the Prompt Payment Act and OMB Circular A-125. Generally, the law requires payment within 30 days from the later of either the receipt of a proper invoice or acceptance of the services. If this timeframe is not met, an interest penalty must be paid to the vendor.

Within Treasury, the standard for the timely payment rate is that no more than 2% of the invoices subject to prompt payment shall be paid late (i.e., at least 98% paid within 30 days). The Office's prompt payment rate exceeds the Treasury standard. The Office's prompt payment performance for FY 2003 is presented below.

1.	Number of Invoices Paid	126
2.	Number of Invoices Paid Late	0
3.	Interest Penalties Paid	0
4.	Percentage of Invoices Paid Late	0

With the July 2003 payment, Accenture, the systems integration contractor for the Office of D.C. Pensions, began offering an early payment discount as an incentive to make payments in less than the 30 days as prescribed in the Prompt Payment Act. The discounts are:

- 1% for payment within 10 days of the invoice date
- 1/2% for payment within 20 days of the invoice date

As a result, the Office of D.C. Pensions saved approximately \$8,000 in the last quarter of FY 2003.

H. Electronic Payments

For reasons of reliability and security, Treasury's Fiscal Assistant Secretary and the Financial Management Service encourage federal agencies to use electronic payments. In FY 2003, the Office paid 100% of the 126 vendor payments by electronic funds transfer.

The Office encourages annuitants to receive benefits through direct deposit. In FY 2003, 86% of retired police officers, 88% of retired firefighters, 89% of retired teachers, and 90% of retired judges received their monthly benefit payments by direct deposit.

I. 3-Day Close

Since April 2001, the Office has closed its books each month within three working days. The Office has been rated green (the highest rating) since February 2002 for all data quality checks on the monthly data quality score card maintained by the Treasury's Office of Accounting and Internal Control.

J. Independent Auditors' Reports on FY 2003 Financial Statements, Controls and Legal Compliance

KPMG LLP (KPMG), an independent public accountant, rendered an unqualified opinion on the Office of D.C. Pensions' FY 2003 financial statements. This is the fifth consecutive year that the Office of D.C. Pensions' financial statements have received an unqualified opinion.

KPMG noted no matters involving the internal control and its operation that are considered to be material weaknesses. Also, the results of the KPMG tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or OMB Bulletin No. 01-02.

IV. Statutory Issues and Legal Activity

A. Legislative Proposal

Treasury is preparing a proposal that the Act be amended to: (1) merge the Trust Fund and the Supplemental Fund; and (2) make the Act's provisions on notice of denial of benefits and the opportunity for review applicable to the Judges' Retirement Plan.

B. Legislative Changes to Benefits – 1) Longevity and 2) Post-56 Military Service

1. Longevity

In December 1999 and December 2000, respectively, District and federal statutes have been enacted that require retirement benefits for District police officers to include longevity pay in their salary at the time of retirement. Resolution of issues involving the implementation methodology and eligibility for the longevity retirement pay adjustment has delayed implementation of the District and federal statutes.

Implementation Methodology

The federal statute provides that Federal Benefit Payments be calculated following the District statute's methodology. Under this methodology, data collection and calculations could have taken from six months to one year to accomplish. To shorten this time frame, the Association of Retired Police Officers (AORP) proposed District and federal legislation that would authorize Treasury to implement a simplified methodology. The District legislation was enacted on October 19, 2002, and the federal legislation was enacted on November 7, 2002.

Treasury implemented the Federal legislation for the pre-97 retirees. By the end of FY 2003, approximately 1,300 annuitants in this group had received increased monthly benefits and a total of approximately \$10 million in retroactive payments.

Eligibility

Implementation for annuitants who retired after June 30, 1997, has been further delayed as the result of different District and federal eligibility requirements. The D.C. Office of Personnel supported the introduction of a bill in January 2003 to conform the eligibility requirements. The bill is scheduled to be considered by the District Council in November 2003.

If the eligibility legislation is passed, the Office will calculate Federal and District Benefit Payments for annuitants who retired after June 30, 1997. Otherwise, the Office will proceed with calculation of the Federal Benefit Payments for this group. Treasury estimates that annuitants in this group are owed approximately \$13.4 million in retroactive Federal Benefit Payments.

2. Post-1956 Military Service

As noted in Section II. F. 2. above, the Congress is considering a proposal (HR 3054) that would permit District police officers and firefighters to purchase their post-1956 military service and avoid recalculation of their annuities once they are eligible for Social Security full retirement age benefits.

V. Limitations of the Financial Statements

- The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of the 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

The Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position and financing, and combined statements of budgetary resources for the years then ended (hereinafter referred to as "financial statements"). These financial statements are the responsibility of ODCP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Office of D.C. Pensions as of September 30, 2003 and 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis and the Supplemental Information Consolidating Intra-governmental Balances on page 45 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit the information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information on pages 40 through 44 is presented for purposes of additional analysis of the financial statements rather than to present the financial position, net costs, changes in net position,





budgetary resources, and reconciliation of net costs to budgetary obligations of ODCP's pension funds individually. The information on pages 46 through 49 is also presented for purposes of additional analysis of the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 5, 2003, on our consideration of ODCP's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

November 5, 2003

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
As of September 30, 2003 and September 30, 2002
(in thousands)

	2003	2002
Assets		
Entity Assets		
Intra-Governmental Assets		
Fund Balance with Treasury (Note 3)	\$ 274	\$ 271
Investments in GAS Securities, Net (Note 4)	3,942,397	3,956,073
Interest Receivable from GAS Securities	54,109	57,497
Software-In-Development	-	22,455
ADP Software, Net (Note 5)	23,627	-
Equipment, Net (Note 6)	230	56
Accounts Receivable	8,513	5,912
Total Assets	<u>\$ 4,029,150</u>	<u>\$ 4,042,264</u>
Liabilities		
Liabilities Covered By Budgetary Resources		
Intra-Governmental		
Accounts Payable	\$ 53	\$ 179
Accrued Payroll & Benefits	9	7
Accounts Payable	19,956	8,043
Accrued Pension Benefits Payable	39,599	55,260
Actuarial Pension Liability	3,969,270	3,978,538
Accrued Payroll & Benefits	263	237
Total Liabilities Covered By Budgetary Resources	<u>4,029,150</u>	<u>4,042,264</u>
Liabilities Not Covered By Budgetary Resources		
Actuarial Pension Liability	<u>4,335,231</u>	<u>4,366,002</u>
Total Liabilities	<u>8,364,381</u>	<u>8,408,266</u>
Net Position:		
Cumulative Results of Operations	<u>(4,335,231)</u>	<u>(4,366,002)</u>
Total Net Position	<u>(4,335,231)</u>	<u>(4,366,002)</u>
Total Liabilities & Net Position	<u>\$ 4,029,150</u>	<u>\$ 4,042,264</u>

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Net Cost
For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003	2002
Program Costs		
Intra-Governmental		
Administrative Expenses (Note 7)	\$ 3,841	\$ 2,596
Pension Expense (Note 8)	422,325	613,368
Administrative Expenses (Note 7)	15,185	10,964
Total Program Costs	441,351	626,928
Less: Earned Revenues		
Interest Earned from GAS Securities	195,544	205,140
Employee Contributions	522	511
Net Cost of Operations	\$ 245,285	\$ 421,277

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003	2002
Net Position - Beginning of Year	\$ (4,366,002)	\$ (4,203,247)
Financing Sources (Other Than Exchange Revenue)		
Appropriations Used	275,900	258,398
Additional Proceeds from DC Asset Liquidation	1	-
Imputed Financing Sources	155	124
Total Financing Sources	<u>276,056</u>	<u>258,522</u>
Net Cost of Operations	(245,285)	(421,277)
Net Position - End of Year	<u>\$ (4,335,231)</u>	<u>\$ (4,366,002)</u>

The accompanying notes are an integral part of these financial statements.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003	2002
<i>Budgetary Resources</i>		
Budget Authority	\$ 713,066	\$ 688,626
Unobligated Balance - Beginning of Year	2,430,025	2,761,883
Spending Authority from Offsetting Collections	6,818	6,095
Temporarily Unavailable Pursuant to Public Law	(297,339)	(273,588)
Total Budgetary Resources	<u>\$ 2,852,570</u>	<u>\$ 3,183,016</u>
<i>Status of Budgetary Resources</i>		
Obligations Incurred	\$ 769,824	\$ 752,991
Unobligated Balances Available	2,082,746	2,430,025
Total Status of Budgetary Resources	<u>\$ 2,852,570</u>	<u>\$ 3,183,016</u>
<i>Relationship of Obligations to Outlays</i>		
Obligated Balance, Net - Beginning of Year	\$ 70,098	\$ 49,099
Obligations Incurred	769,824	752,991
Obligated Balance, Net - End of Year	(68,178)	(70,098)
<i>Outlays</i>		
Disbursements	771,744	731,992
Collections	(6,818)	(6,095)
Total Outlays	<u>764,926</u>	<u>725,897</u>
Less: Offsetting Receipts	196,067	205,651
Net Outlays	<u>\$ 568,859</u>	<u>\$ 520,246</u>

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Financing
For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003	2002
<i>Budgetary Resources Obligated</i>		
<i>Obligations Incurred</i>	\$ 769,824	\$ 752,991
<i>Less: Spending Authority from Offsetting Collections and Adjustments</i>	6,818	6,095
<i>Obligations Net of Offsetting Collections and Recoveries</i>	763,006	746,896
<i>Less: Offsetting Receipts</i>	196,067	205,651
<i>Net Obligations</i>	566,939	541,245
<i>Imputed Financing from Costs Absorbed by Others</i>	155	124
<i>Total Resources Used to Finance Activities</i>	567,094	541,369
<i>Resources Used to Finance Items Not Part of the Net Cost of Operations</i>		
<i>Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided</i>	1,925	305
<i>Resources That Fund Expenses Recognized in Prior Periods</i>	52,512	(300)
<i>Budgetary Offsetting Collect & Receipts that don't Affect Net Cost of Op of Operations</i>	(1)	-
<i>Resources that Finance the Acquisition of Assets or Liquidation of Liabilities</i>	4,015	9,822
<i>Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations</i>	275,900	258,398
<i>Total Resources used to Finance Items not part of the Net Cost of Operations</i>	334,351	268,225
<i>Total Resources Used to Finance Net Cost of Operations</i>	232,743	273,144
<i>Components Requiring or Generating Resources in Future Periods</i>		
<i>Future Funded Expenses</i>	9,873	148,115
<i>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</i>	9,873	148,115
<i>Components not Requiring or Generating Resources</i>		
<i>Depreciation and Amortization</i>	2,669	22
<i>Revaluation of Assets or Liabilities</i>	-	(4)
<i>Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods</i>	2,669	18
<i>Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods</i>	12,542	148,133
<i>Net Cost of Operations</i>	\$ 245,285	\$ 421,277

The accompanying notes are an integral part of these financial statements.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

(1) Reporting Entity

The Balanced Budget Act of 1997, as amended (the Act), provides that the Secretary of the Treasury (the Secretary) assume certain responsibilities for the District of Columbia (D.C.) pension system, including administration of fund assets and making Federal pension benefit payments. The Department of the Treasury's (Treasury) Office of D.C. Pensions, within the Departmental Offices, administers the Secretary's responsibilities under the Act. This is accomplished through a matrix management arrangement that includes a core office supported by other Treasury offices that provide expertise in the range of program areas encompassed by the Act. The Office of D.C. Pensions (the Office) is responsible for investments, benefits administration, actuarial valuations, procurement, information systems, and financial reporting. Treasury's Office of the General Counsel provides legal analysis.

To varying degrees the Secretary is responsible for three D.C. retirement plans:

- Police Officers' and Firefighters' Retirement Plan
- Teachers' Retirement Plan
- Judges' Retirement Plan

For the Police Officers' and Firefighters', and Teachers' Retirement Plans, the Secretary is responsible for paying benefits earned through June 30, 1997. The D.C. Government is responsible for paying benefits earned after June 30, 1997. For the Judges' Retirement Plan, the Secretary is responsible for all benefits earned.

(a) *District of Columbia Federal Pension Liability Trust Fund*

Pursuant to the Act, Treasury established the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund – 20X8230). The Trust Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans under the provisions of the Act. The Trust Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred to Treasury from the D.C. Retirement Board pursuant to the Act;
- Income earned on the investments held in the Trust Fund; and
- Reimbursement and receivables from the D.C. Government for the District's estimated share of benefits paid from the Trust Fund for Fiscal Years (FY) 1998-2003.

The portion of the Trust Fund that is not needed to meet the level of current benefit payments, refunds, and administrative expenses is invested in nonmarketable Government Account Series (GAS) securities issued by the Treasury's Bureau of Public Debt (BPD). Investments are made in securities with maturities suitable to the needs of the Trust Fund.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

(b) *Federal Supplemental District of Columbia Pension Fund*

Pursuant to the Act, Treasury established the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund – 20X5500). The Supplemental Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. Funds held in the Supplemental Fund are not available for use until such time as the funds held in the Trust Fund have been depleted. No later than 18 months before the projected depletion of the available assets of the Trust Fund, the Secretary shall determine the manner in which the Supplemental Fund will be used to fund future benefits and administrative expenses.

The Supplemental Fund consists of the following:

- Amounts deposited from the General Fund of the Treasury; and
- Income earned on the investments held in the Supplemental Fund.

The funds held in the Supplemental Fund are invested in GAS securities with maturities suitable to the needs of the Supplemental Fund.

By the end of each applicable fiscal year, the Act requires the Secretary to pay into the Supplemental Fund (from the General Fund of the Treasury) an amount equal to the annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize in equal annual installments the original unfunded liability over 30 years, the net experience gain or loss over 10 years and any other changes in actuarial liability over 20 years. The amount paid into the Supplemental Fund during FY 2003 and 2002 was \$269.2 million and \$251.7 million, respectively.

(c) *District of Columbia Judicial Retirement and Survivors Annuity Fund*

Pursuant to the Act, Treasury established the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund – 20X8212). The Judicial Retirement Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses of the Judges' plan under the provisions of the Act.

The Judicial Retirement Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred to Treasury from the D.C. Retirement Board pursuant to the Act;
- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the Judicial Retirement Fund; and
- Employee contributions to the Judicial Retirement Fund.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

The portion of the Fund that is not needed to meet the level of current benefit payments, refunds and administrative expenses is invested in GAS securities. Investments are made in securities with maturities suitable to the needs of the Judicial Retirement Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liability over 30 years, the net experience gain or loss over 10 years and any other changes in actuarial liability over 20 years. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program not covered by employee contributions. The amount paid into the Judicial Retirement Fund during FY 2003 and 2002 was approximately \$6.7 million and \$6.7 million, respectively.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting and Presentation*

The Office's financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, Changes in Net Position, and the Combined Statements of Budgetary Resources and Consolidated Statements of Financing, all of which are prescribed by Office of Management and Budget (OMB) Bulletins. The financial statements have been prepared from the accounting records of the Office in conformity with accounting principles generally accepted in the United States of America (GAAP) and the Form and Content of Agency Financial Statements specified by OMB in OMB Bulletin No. 01-09. GAAP for federal entities is prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants. The statements are different from the financial reports, also prepared by the Office, pursuant to OMB directives that are used to monitor and control the Office's use of budgetary resources.

(b) *Fund Balance with Treasury*

Fund Balance with Treasury represents appropriated funds remaining as of fiscal year-end from which the Office is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law.

(c) *Investments*

Pursuant to the Act and Section 130 of Division A of Public Law 105-277 (1998), the Secretary invests the portions of the Trust, Supplemental, and Judicial Retirement Funds (Retirement Funds) that are not necessary to meet current obligations, in GAS securities. Amounts needed to meet current obligations are invested in overnight non-marketable par value GAS securities, redeemed at face value plus accrued interest. All of the Office's remaining fund investments are in market-based

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

(MK) GAS securities — nonmarketable Treasury securities that mirror the prices of marketable securities with similar terms, issued and redeemed by BPD.

The Office follows Treasury investment policy guidelines and determines whether the investments should be made in MK bills, MK notes, or MK bonds. The maturities on investments range from less than one year to approximately 10 years. If amounts held in cash, overnight securities and maturing securities are inadequate to meet required outlays, investments would be selected for redemption based on a review of the advantages of each of the alternatives and an assessment of the appropriateness of the securities in the portfolio under current investment policy. Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

(d) *ADP Software – Net*

ADP Software – Net represents the pension benefit and payroll software purchased and independent contractor costs incurred in FY 2000 - 2003 to build a retirement system to better meet Treasury's and D.C.'s needs (net of accumulated amortization). This software was transferred from Software-In-Development and placed in service during FY 2003. Costs of software are recorded as an asset and capitalized in accordance with the following thresholds:

- Capitalize software acquisitions that exceed \$50,000;
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than \$5,000 and less than \$50,000) that exceed \$500,000; and
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than \$50,000) that exceed \$500,000.

Software is amortized using the straight-line method over the asset's estimated useful life of five years, with six months amortization taken in the first and last year.

(e) *Equipment - Net*

Equipment – Net represents computer hardware purchases (net of accumulated depreciation) placed in service and used to run ADP Software and operation of the pension/payroll system. Costs of equipment are recorded as an asset and capitalized in accordance with the following thresholds:

- Capitalize equipment acquisitions that exceed \$50,000;
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than \$5,000 and less than \$50,000) that exceed \$500,000; and
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than \$50,000) that exceed \$500,000.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

Equipment is depreciated using the straight-line method over the asset's estimated useful life of five years, with six months depreciation taken in the first and last year.

(f) *Accounts Receivable*

Accounts Receivable consist of a receivable from the D.C. Government for the District's estimated share of benefits paid by the Office during FY 2003 and 2002 respectively, and employee retirement contributions withheld from the judges' salaries not yet transferred from the General Services Administration to the Judicial Retirement Fund before the end of the fiscal years.

(g) *Accrued Pension Benefits Payable*

Accrued pension benefits payable pertains, for the most part, to retirement benefits to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period. Included in this accrual are amounts for refund claims that have not completed processing during the reporting period, but will be paid in the subsequent period.

(h) *Actuarial Pension Liability*

The actuarial cost method used to determine costs for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and Judges Retirement Plan is the Aggregate Entry Age Normal Actuarial Cost Method. Under this funding method, the normal cost is a level percent of pay cost, which, along with the member contributions (under the Judges' Plan only), will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost.

The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial accrued liability.

The actuarial accrued liability is based upon assumptions made by Treasury. The assumptions used in FY 2002 and FY 2003 were an annual rate of investment return of 6.0% based on the securities held, salary increases at an annual rate of 4.0%, and annual inflation and cost-of-living adjustments of 3.0%.

(i) *Appropriations Received and Used*

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenue and Other Financing Sources," all appropriations received by the Office are reported in the accompanying consolidated statements of changes in net position as appropriations used, since the liability to provide retirement benefits to police officers, firefighters and teachers was established as of June 30, 1997. Appropriations received and used for the years ended September 30, 2003 and 2002 were approximately \$275.9 million and \$258.4 million, respectively.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

(j) *Employee Retirement Plans*

The Trust and Judicial Retirement Funds pay salaries and benefits of Treasury employees who work on the D.C. Pensions Program as reasonable and necessary expenses incurred by the Secretary in carrying out his responsibilities under the Act. These salaries and benefits are split 90% and 10% between the Trust and the Judicial Retirement Funds, respectively.

The Office's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee's Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984, elected to join either FERS and Social Security or remain in CSRS.

Most employees are eligible to contribute to the Thrift Savings Plan (TSP). For employees participating in FERS, TSP accounts are automatically established and the Trust and the Judicial Retirement Funds make mandatory contributions of one percent of the Treasury employees' base pay to the accounts. In addition, the Funds make matching contributions, ranging from 1% to 4% of base pay, for FERS eligible employees who contribute to their TSP accounts. Pursuant to law, mandatory and matching contributions are not made to the TSP accounts established for CSRS employees.

After retirement, FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program. The Trust and Judicial Retirement Funds remit the employer's share of the required contributions for eligible employees.

The Trust and Judicial Retirement Funds do not report information pertaining to the retirement plans covering Treasury employees. The U.S. Office of Personnel Management is responsible for reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any.

(k) *President's Budget*

The Budget of the United States (also known as the President's Budget), with actual numbers for FY 2003, was not published at the time that these financial statements were issued. The President's Budget, which includes the ODCP budget within the Other Independent Agencies' budget appendix, is expected to be published in January or February 2004. It will be available from the United States Government Printing Office.

Earnings on investments in US securities, federal (as reported in the annual President's budget) consists of interest *collected* from GAS securities less premiums and interest purchased. Interest Earned from GAS Securities (as reported in the financial statements) consists of interest *earned* from GAS securities and the amortization of premiums and discounts.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

(3) Fund Balance with Treasury

Fund Balance with Treasury and the status of Fund Balance with Treasury as of September 30, 2003 and 2002, consisted of the following (in thousands):

	<u>2003</u>	<u>2002</u>
Fund Balances:		
Trust Funds	\$ 273	270
Special Funds	<u>1</u>	<u>1</u>
Total Fund Balance with Treasury	\$ <u><u>274</u></u>	<u><u>271</u></u>

	<u>2003</u>	<u>2002</u>
Status of Fund Balance with Treasury		
Unobligated Balance		
Unavailable	\$ 1	1
Obligated Balance not yet Disbursed	<u>273</u>	<u>270</u>
Total	\$ <u><u>274</u></u>	<u><u>271</u></u>

(4) Investments in GAS Securities - Net

Investments in GAS Securities – Net as of September 30, 2003 and 2002, consisted of the following (in thousands):

	<u>2003</u>			
	<u>Cost</u>	<u>Unamortized Premium</u>	<u>Investments Net</u>	<u>Market Value</u>
Intragovernmental Securities				
Non-marketable Par Value	\$ 209,935	—	209,935	209,935
Non-marketable Market-based	<u>3,603,517</u>	<u>128,945</u>	<u>3,732,462</u>	<u>3,991,236</u>
Total	\$ <u><u>3,813,452</u></u>	<u><u>128,945</u></u>	<u><u>3,942,397</u></u>	<u><u>4,201,171</u></u>

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

		2002			
		Cost	Unamortized Premium	Investments Net	Market Value
Intragovernmental Securities					
Non-marketable Par Value	\$	123,600	—	123,600	123,600
Non-marketable Market-based		<u>3,743,978</u>	<u>88,495</u>	<u>3,832,473</u>	<u>4,157,667</u>
Total	\$	<u><u>3,867,578</u></u>	<u><u>88,495</u></u>	<u><u>3,956,073</u></u>	<u><u>4,281,267</u></u>

The amortization method utilized by the D.C. Pensions Funds is the effective interest method. The market value for notes and bonds is calculated using rates for September 30, 2003 and 2002, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in this figure are net unrealized gains of \$258.8 million and \$325.2 million as of September 30, 2003 and 2002, respectively.

The amortized cost of non-marketable market-based GAS securities as of September 30, 2003 and 2002, by maturity date, are as follows (in thousands):

	2003	2002
Less than or equal to 1 year	\$ 517,740	545,645
More than 1 year and less than or equal to 5 years	2,209,018	2,091,486
More than 5 years and less than or equal to 10 years	1,005,704	1,184,811
More than 10 years	<u>—</u>	<u>10,531</u>
Total	\$ <u><u>3,732,462</u></u>	<u><u>3,832,473</u></u>

(5) ADP Software – Net

The components of ADP Software – Net as of September 30, 2003 and 2002, are as follows (in thousands):

	2003	2002
ADP Software	\$ 26,252	—
Accumulated Depreciation	<u>(2,625)</u>	<u>—</u>
ADP Software – Net	\$ <u><u>23,627</u></u>	<u><u>—</u></u>

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

(6) Equipment - Net

The components of Equipment – Net as of September 30, 2003 and 2002, are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
ADP Hardware	\$ 330	111
Accumulated Depreciation	<u>(100)</u>	<u>(55)</u>
Equipment – Net	\$ <u>230</u>	<u>56</u>

(7) Administrative Expenses

Administrative expenses for the years ended September 30, 2003 and 2002, are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Salaries and Related Benefits	\$ 2,605	2,168
Contractual Services	12,676	10,302
Rent	673	348
Noncapitalized Equipment/Software	3,016	732
Other	<u>56</u>	<u>10</u>
Total Administrative Expenses	\$ <u>19,026</u>	<u>13,560</u>

Included in the above expenses are amounts incurred by the Trust and Judicial Retirement Funds for intragovernmental activity totaling \$3,414 thousand and \$427 thousand, respectively, for 2003, and \$2,309 thousand and \$287 thousand, respectively, for 2002.

(8) Pension Expense

Pension expense for the plan years ended September 30, 2003, and 2002, includes the following components (in thousands):

	<u>2003</u>	<u>2002</u>
Normal Cost	\$ 4,000	3,700
Actuarial (gain)/loss during the period	(76,279)	110,768
Interest on pension liability during the period	489,200	480,900
Judges refund payments	86	—
Longevity Pay Adjustment	<u>5,318</u>	<u>18,000</u>
Total Pension Expense	\$ <u>422,325</u>	<u>613,368</u>

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

Federal pension benefits paid during the plan years were \$449 million and \$5.7 million from the Trust and Judicial Retirement Funds, respectively, for 2003, and \$440.3 million and \$5.9 million, respectively, for 2002. For 2003, approximately \$3.9 million and \$0.1 million represents contribution refunds to plan participants of the Trust and Judicial Retirement Fund's total expenses, respectively. For 2002, approximately \$5.0 million represents contribution refunds to plan participants of the Trust Funds total expenses.

(9) Plan Administration and Description

(a) Police Officers' and Firefighters' Retirement Plan

Eligibility

A participant becomes a member when he or she starts work as a police officer or firefighter in the District of Columbia. Police cadets are not eligible to join the Plan. A participant's contribution equals 7% (or 8% for employees hired on or after November 10, 1996) of basic pay. Employee contributions are made according to the plan adopted by the District of Columbia on September 18, 1998. However, the Trust Fund does not receive any employee or employer contributions because pension liability for all service accruing on or after July 1, 1997, is the exclusive responsibility of the District of Columbia.

Members (not survivors) who retired prior to February 15, 1980, receive the same percentage increase in annuities as active employees' salary increases. Members who retired on or after February 15, 1980 and all survivors receive an increase each March based on the annual change in the Consumer Price Index for All Urban Consumers (all items – U.S. City Average) from December to December.

Members Hired Before February 15, 1980

Members are eligible for optional retirement with full benefits at any age with 20 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 12 consecutive months) times years of departmental service up to 20 years, plus 3% of average pay times years of departmental service over 20 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after five years of police or fire service are entitled to a deferred benefit beginning at age 55 if they do not receive a refund of contributions.

Members with service-related disabilities receive an annuity equal to 2.5% of average pay times total years of service, subject to a minimum benefit of 66.67% of average pay and subject to a maximum benefit of 70% of average pay.

Other members with non-service related disabilities with more than five years of departmental service receive an annuity equal to 2% of average pay times total years of service, subject to a minimum benefit of 40% of average pay and subject to a maximum benefit of 70% of average pay.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

Members Hired After February 15, 1980, and Before November 10, 1996

Members are eligible for optional retirement with full benefits at age 50 with at least 25 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 consecutive months) times years of departmental service up to 25 years, plus 3% of average pay times years of departmental service over 25 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after five years of police or fire service are entitled to a deferred pension beginning at age 55 if they do not receive a refund of contributions.

Members with service related disabilities, receive 70% of base pay times percentage of disability, subject to a minimum benefit of 40% of base pay.

Other members with non-service related disabilities with more than five years of departmental service receive 70% of base pay times percentage of disability, subject to a minimum benefit of 30% of base pay.

Members Hired on or After November 10, 1996

Members are eligible for retirement with 25 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 consecutive months) times years of departmental and credited service, subject to a maximum benefit of 80% of basic pay.

Members with service related disabilities receive 70% of base pay times percentage of disability, subject to a minimum benefit of 40% of base pay.

Other members with non-service related disabilities with more than five years of departmental service receive 70% of base pay times percentage of disability, subject to a minimum benefit of 30% of base pay.

Participant Data

For the September 30, 2003, and 2002, actuarial valuations, the participants are as follows:

	2003	2002
Active members	3,663	3,753
Retirees and beneficiaries	7,792	7,825
Vested terminated members	—	—
Total	<u>11,455</u>	<u>11,578</u>

Longevity Pay Adjustment for Police Officers

As required by District law enacted in 1972, active D.C. police officers receive increases in salary reflecting longevity pay adjustments based on length of departmental service. Until recently,

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

District law specifically excluded the longevity pay adjustment in calculating retirement benefits for annuitants (retirees and survivors). District and Federal statutes were enacted in December 1999 and December 2000, respectively, requiring the calculation of retirement benefits to include longevity pay in the salary at the time of retirement. The Federal statute applies to Federal payments made after December 15, 2000, to annuitants who retired on or after August 29, 1972. Therefore, implementation of the Federal statute requires recalculation of initial benefits going back 30 years in some cases. Resolution of issues involving the implementation methodology and eligibility for the longevity retirement pay adjustment has delayed implementation of the District and Federal statutes.

Implementation Methodology

The federal statute provides that Federal Benefit Payments be calculated following the District statute's methodology. Under this methodology, data collection and calculations could have taken from six months to one year to accomplish. To shorten this time frame, the Association of Retired Police Officers (AORP) proposed District and federal legislation that would authorize Treasury to implement a simplified methodology. The District legislation was enacted on October 19, 2002, and the federal legislation was enacted on November 7, 2002.

Treasury implemented the Federal legislation for the pre-97 retirees. By the end of FY 2003, approximately 1,300 annuitants in this group had received increased monthly benefits and a total of approximately \$10 million in retroactive payments.

Eligibility

Implementation for annuitants who retired after June 30, 1997, has been further delayed as the result of different District and federal eligibility requirements. The D.C. Office of Personnel supported the introduction of a bill in January 2003 to conform the eligibility requirements. The bill is scheduled to be considered by the District Council in November 2003.

If the eligibility legislation is passed, the Office will calculate Federal and District Benefit Payments for annuitants who retired after June 30, 1997. Otherwise, the Office will proceed with calculation of the Federal Benefit Payments for this group. Treasury estimates that annuitants in this group are owed approximately \$13.4 million in retroactive Federal Benefit Payments.

Application of Statutory Military Service Provision (Police Officers and Firefighters)

By District law, determination of retirement benefits for District police officers and firefighters may include credit for military service performed after 1956. However, if the retiree is also eligible for Social Security full retirement age or disability benefits based upon his or her wages and self-employment income, the retirement benefit from the District Retirement Plan must be recalculated to remove the portion of the benefit derived from the military service. Recalculation must occur when the retiree reaches the age to begin receiving full Social Security benefits (65+, depending on date of birth). Prior to FY 2003, the District had not performed the necessary recalculations.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

In FY 2003, the District completed recalculations of benefits for 254 annuitants. Past overpayments total approximately \$1.2 million. The District communicated to the annuitants the reduction going forward and plans at a later date to communicate the amount of the debt owed and the avenues available to the annuitants for reconsideration, waiver and compromise.

Going forward, the STAR pension/payroll system will be programmed to flag members who reach Social Security eligibility age so the annuities will be adjusted before any overpayments are made and the annuitants receive sufficient notice of the adjustment.

Representatives of District police officers and firefighters are seeking legislative relief to restore the post-56 military service for affected annuitants. Proposed legislation (HR 3054) would enable active and retired plan members to purchase post-1956 military service in a manner similar to that available to federal employees.

(b) *Teachers' Retirement Plan*

Eligibility

Permanent, temporary, and probationary teachers and certain other employees of the D.C. Public Schools become members automatically on their date of employment. The basic retirement contribution equals 7% (or 8% for teachers hired on or after November 16, 1996) of a participant's annual pay minus any pay received for summer school. Employee contributions are made according to the plan adopted by the District of Columbia on September 18, 1998. However, the Trust Fund does not receive any employee or employer contributions because pension liability for all service accruing on or after July 1, 1997, is the exclusive responsibility of the District of Columbia.

Voluntary retirement is available for teachers with five years of school service who have attained age 62; age 60 with 20 years of total service, including at least five years of school service; age 55 with 30 years of total service, including at least five years of school service; and at any age with 30 years of total service, including at least five years of school service, if hired by the school system on or after November 16, 1996.

The annuity is equal to 1.5% of three-year average pay times years of service up to five years, plus 1.75% of average pay times years of service between five and ten years, plus 2% of average pay times years of service over ten years. For participants hired on or after November 16, 1996, the annuity is equal to 2.0% of three-year average pay times all years of service.

Participants who have five years of school service and who have a physical or mental disability that prevents them from performing their job, may be eligible for disability retirement. Disability benefits are based on the voluntary retirement benefit subject to a minimum of the lesser of 40% of average pay or the benefit the member would receive using average pay at the time of disability with service projected to age 60.

Employees who are involuntarily separated other than for misconduct or delinquency and who have five years of school service, may be eligible for retirement at any age. The retirement benefit is

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

calculated in the same manner as voluntary retirement, except that the involuntary retirement benefit is reduced 1/6% per month (2% per year) for each full month the teacher is under age 55 at the time of separation from the school system.

All participants receive an annuity increase effective each March 1st based on the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (all items – U.S. City Average) from December to December.

Participant Data

For the September 30, 2003, and 2002, actuarial valuations, the participants eligible to receive a Federal benefit are as follows:

	2003	2002
Active members	3,437	3,817
Retirees and beneficiaries	5,517	5,396
Vested terminated members	25	25
Total	8,979	9,238

(c) Judges' Retirement Plan

Eligibility

A participant becomes a member of the Plan when he or she becomes a judge of the D.C. Court of Appeals or the Superior Court, or when he or she becomes the Executive Officer of the District Court System. A participant's contribution equals 3.5% of annual salary plus an optional 3.5% of annual salary for survivors' benefits. The Judicial Retirement Fund receives the employee contributions.

Members are eligible for normal retirement with full benefits at age 50 with at least 20 years of judicial service, at age 60 with at least 10 years of judicial service (seven years of service for the executive officer), or upon reaching age 74. The annuity is equal to the basic salary at retirement times the total years of judicial service divided by 30, plus 1.5% of basic salary times credited service up to five years, plus 1.75% of basic salary times credited service between five years and 10 years, plus 2% of basic salary times credited service over 10 years, subject to a maximum benefit of 80% of final salary at retirement.

A judge electing to retire with at least 10 years of judicial service (at least seven years if the Executive Officer) but less than 20 years of judicial service between ages 55 and 60 shall receive an annuity based on the above formula, reduced by 1/12% per month or fraction of a month (1% per year) for each year the participant is under age 60 at retirement. Judges and the Executive Officer are eligible for disability benefits after five years of total service if they have a physical or mental

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Notes to Financial Statements

September 30, 2003 and 2002

disability that seriously interferes with the proper performance of duties. The annuity to be received under a disability retirement will be a normal benefit subject to a minimum benefit of 50% of salary.

All participants receive an annuity increase each January based on the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (all items – U.S. City Average) from September to September. This cost of living increase is the same increase provided for annuitants in the Federal Civil Service Retirement System (CSRS).

Participant Data

For the September 30, 2003, and 2002, actuarial valuations, the participants eligible to receive a Federal benefit are as follows:

	2003	2002
Active members	66	66
Retirees and beneficiaries	72	68
Vested terminated members	2	—
Total	140	134

Application of Statutory Purchase of Service Provisions (Judges)

The Office determined that the District has been using incorrect methods to calculate the cost for judges to purchase credit for non-judicial service. The judges' plan allows judges to elect to receive service credit for certain military and civilian service with the U.S. Government. If a judge received a lump sum payout from another civilian retirement plan for service that is creditable, the judge must deposit 3.5% of his or her basic pay for each year of service to obtain credit for the service under the judges' plan.

The judge must also pay interest on the deposit for the period from when the service ended to the date when the deposit is made. Until 1980, the interest rate was 3%. From 1980 on, the interest rate is a variable rate tied to the performance of the fund in which plan assets are held. The District continued to charge 3% after 1980. The District's failure to use an interest rate based on the investment returns of the fund resulted in judges who purchased service credit receiving full credit without paying the amount of interest required by statute.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Balance Sheets
As of September 30, 2003 and 2002
(in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2003	Federal Supplemental DC Pension Fund FY 2003	DC Federal Pension Liability Trust Fund FY 2003	Consolidated DC Pension Funds Total FY 2003	DC Judicial Retirement and Survivors Annuity Fund FY 2002	Federal Supplemental DC Pension Fund FY 2002	DC Federal Pension Liability Trust Fund FY 2002	Consolidated DC Pension Funds Total FY 2002
Assets								
Entity Assets								
Intra-Governmental Assets								
Fund Balance with Treasury	\$ 28	1	245	274	28	1	242	271
Investments in GAS Securities, Net	95,789	1,738,844	2,107,764	3,942,397	90,632	1,402,451	2,462,990	3,956,073
Interest Receivable from GAS Securities	1,280	21,416	31,413	54,109	1,267	19,070	37,160	57,497
Software-In-Development	-	-	-	-	2,245	-	20,210	22,455
ADP Software, Net	2,146	-	21,481	23,627	-	-	-	-
Equipment, Net	23	-	207	230	6	-	50	56
Accounts Receivable	13	-	8,500	8,513	12	-	5,900	5,912
Total Assets	\$ 99,279	1,760,261	2,169,610	4,029,150	94,190	1,421,522	2,526,552	4,042,264
Liabilities								
Liabilities Covered By Budgetary Resources								
Intra-Governmental								
Accounts Payable	\$ 5	-	48	53	18	-	161	179
Accrued Payroll & Benefits	1	-	8	9	1	-	6	7
Accounts Payable	99	-	19,857	19,956	456	-	7,587	8,043
Accrued Pension Benefits Payable	485	-	39,114	39,599	458	-	54,802	55,260
Actuarial Pension Liability	98,663	-	3,870,607	3,969,270	93,233	-	3,885,305	3,978,538
Accrued Payroll & Benefits	26	-	237	263	24	-	213	237
Total Liabilities Covered By Budgetary Resources	99,279	-	3,929,871	4,029,150	94,190	-	3,948,074	4,042,264
Liabilities Not Covered By Budgetary Resources								
Actuarial Pension Liability	29,052	-	4,306,179	4,335,231	24,608	-	4,341,394	4,366,002
Total Liabilities	128,331	-	8,236,050	8,364,381	118,798	-	8,289,468	8,408,266
Net Position:								
Cumulative Results of Operations	(29,052)	1,760,261	(6,066,440)	(4,335,231)	(24,608)	1,421,522	(5,762,916)	(4,366,002)
Total Net Position	(29,052)	1,760,261	(6,066,440)	(4,335,231)	(24,608)	1,421,522	(5,762,916)	(4,366,002)
Total Liabilities & Net Position	\$ 99,279	1,760,261	2,169,610	4,029,150	94,190	1,421,522	2,526,552	4,042,264

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Net Cost
For the Years Ended September 30, 2003 and 2002
(in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2003	Federal Supplemental DC Pension Fund FY 2003	DC Federal Pension Liability Trust Fund FY 2003	Consolidated DC Pension Funds Total FY 2003	DC Judicial Retirement and Survivors Annuity Fund FY 2002	Federal Supplemental DC Pension Fund FY 2002	DC Federal Pension Liability Trust Fund FY 2002	Consolidated DC Pension Funds Total FY 2002
<i>Program Costs</i>								
<i>Intra-Governmental</i>								
Administrative Expenses	\$ 427	-	3,414	3,841	287	-	2,309	2,596
Pension Expense	15,569	-	406,756	422,325	12,267	-	601,101	613,368
Administrative Expenses	854	-	14,331	15,185	1,593	-	9,371	10,964
<i>Total Program Costs</i>	<u>16,850</u>	<u>-</u>	<u>424,501</u>	<u>441,351</u>	<u>14,147</u>	<u>-</u>	<u>612,781</u>	<u>626,928</u>
<i>Less: Earned Revenues</i>								
Interest Earned from GAS Securities	5,169	69,539	120,836	195,544	5,050	58,534	141,556	205,140
Employee Contributions	522	-	-	522	511	-	-	511
<i>Net Cost of Operations</i>	<u>\$ 11,159</u>	<u>(69,539)</u>	<u>303,665</u>	<u>245,285</u>	<u>8,586</u>	<u>(58,534)</u>	<u>471,225</u>	<u>421,277</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Changes in Net Position
For the Years Ended September 30, 2003 and 2002
(in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2003	Federal Supplemental DC Pension Fund FY 2003	DC Federal Pension Liability Trust Fund FY 2003	Consolidated DC Pension Funds Total FY 2003	DC Judicial Retirement and Survivors Annuity Fund FY 2002	Federal Supplemental DC Pension Fund FY 2002	DC Federal Pension Liability Trust Fund FY 2002	Consolidated DC Pension Funds Total FY 2002
Net Position - Beginning of Year	\$ (24,608)	1,421,522	(5,762,916)	(4,366,002)	(22,732)	1,111,288	(5,291,803)	(4,203,247)
Financing Sources (Other Than Exchange Revenue)								
Appropriations Used	6,700	269,200	-	275,900	6,698	251,700	-	258,398
Additional Proceeds from DC Asset Liquidation	-	-	1	1	-	-	-	-
Imputed Financing Sources	15	-	140	155	12	-	112	124
Total Financing Sources	<u>6,715</u>	<u>269,200</u>	<u>141</u>	<u>276,056</u>	<u>6,710</u>	<u>251,700</u>	<u>112</u>	<u>258,522</u>
Net Cost of Operations	(11,159)	69,539	(303,665)	(245,285)	(8,586)	58,534	(471,225)	(421,277)
Net Position - End of Year	<u>\$ (29,052)</u>	<u>1,760,261</u>	<u>(6,066,440)</u>	<u>(4,335,231)</u>	<u>(24,608)</u>	<u>1,421,522</u>	<u>(5,762,916)</u>	<u>(4,366,002)</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combining Statements of Budgetary Resources
For the Years Ended September 30, 2003 and 2002
(in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2003	Federal Supplemental DC Pension Fund FY 2003	DC Federal Pension Liability Trust Fund FY 2003	Combined DC Pension Funds Total FY 2003	DC Judicial Retirement and Survivors Annuity Fund FY 2002	Federal Supplemental DC Pension Fund FY 2002	DC Federal Pension Liability Trust Fund FY 2002	Combined DC Pension Funds Total FY 2002
Budgetary Resources								
Budget Authority	\$ 18,940	566,539	127,587	713,066	18,619	525,288	144,719	688,626
Unobligated Balance - Beginning of Year	84,536	-	2,345,489	2,430,025	82,072	-	2,679,811	2,761,883
Spending Authority from Offsetting Collections	-	-	6,818	6,818	-	-	6,095	6,095
Temporarily Unavailable Pursuant to Public Law	-	(297,339)	-	(297,339)	-	(273,588)	-	(273,588)
Total Budgetary Resources	<u>\$ 103,476</u>	<u>269,200</u>	<u>2,479,894</u>	<u>2,852,570</u>	<u>100,691</u>	<u>251,700</u>	<u>2,830,625</u>	<u>3,183,016</u>
Status of Budgetary Resources								
Obligations Incurred	\$ 12,899	269,200	487,725	769,824	16,155	251,700	485,136	752,991
Unobligated Balances Available	90,577	-	1,992,169	2,082,746	84,536	-	2,345,489	2,430,025
Total Status of Budgetary Resources	<u>\$ 103,476</u>	<u>269,200</u>	<u>2,479,894</u>	<u>2,852,570</u>	<u>100,691</u>	<u>251,700</u>	<u>2,830,625</u>	<u>3,183,016</u>
Relationship of Obligations to Outlays								
Obligated Balance, Net - Beginning of Year	\$ 2,261	-	67,837	70,098	1,329	-	47,770	49,099
Obligations Incurred	12,899	269,200	487,725	769,824	16,155	251,700	485,136	752,991
Obligated Balance, Net - End of Year	(1,241)	-	(66,937)	(68,178)	(2,261)	-	(67,837)	(70,098)
Outlays								
Disbursements	13,919	269,200	488,625	771,744	15,223	251,700	465,069	731,992
Collections	-	-	(6,818)	(6,818)	-	-	(6,095)	(6,095)
Total Outlays	<u>13,919</u>	<u>269,200</u>	<u>481,807</u>	<u>764,926</u>	<u>15,223</u>	<u>251,700</u>	<u>458,974</u>	<u>725,897</u>
Less: Offsetting Receipts	<u>5,691</u>	<u>69,539</u>	<u>120,837</u>	<u>196,067</u>	<u>5,561</u>	<u>58,534</u>	<u>141,556</u>	<u>205,651</u>
Net Outlays	<u>\$ 8,228</u>	<u>199,661</u>	<u>360,970</u>	<u>568,859</u>	<u>9,662</u>	<u>193,166</u>	<u>317,418</u>	<u>520,246</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Financing
For the Years Ended September 30, 2003 and 2002
(in thousands)

	DC Judicial Retirement and Survivors Annuity Fund FY 2003	Federal Supplemental DC Pension Fund FY 2003	DC Federal Pension Liability Trust Fund FY 2003	Consolidated DC Pension Funds Total FY 2003	DC Judicial Retirement and Survivors Annuity Fund FY 2002	Federal Supplemental DC Pension Fund FY 2002	DC Federal Pension Liability Trust Fund FY 2002	Consolidated DC Pension Funds Total FY 2002
Budgetary Resources Obligated								
Obligations Incurred	\$ 12,899	269,200	487,725	769,824	16,155	251,700	485,136	752,991
Less: Spending Authority from Offsetting Collections and Adjustments	-	-	6,818	6,818	-	-	6,095	6,095
Obligations Net of Offsetting Collections and Recoveries	12,899	269,200	480,907	763,006	16,155	251,700	479,041	746,896
Less: Offsetting Receipts	5,691	69,539	120,837	196,067	5,561	58,534	141,556	205,651
Net Obligations	7,208	199,661	360,070	566,939	10,594	193,166	337,485	541,245
Imputed Financing from Costs Absorbed by Others	15	-	140	155	12	-	112	124
Total Resources Used to Finance Activities	7,223	199,661	360,210	567,094	10,606	193,166	337,597	541,369
Resources Used to Finance Items Not Part of the Net Cost of Operations								
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(680)	-	2,605	1,925	692	-	(387)	305
Resources That Fund Expenses Recognized in Prior Periods	-	-	52,512	52,512	-	-	(300)	(300)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	-	-	(1)	(1)	-	-	-	-
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	160	-	3,855	4,015	982	-	8,840	9,822
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	6,700	269,200	-	275,900	6,698	251,700	-	258,398
Total Resources used to Finance Items not part of the Net Cost of Operations	6,180	269,200	58,971	334,351	8,372	251,700	8,153	268,225
Total Resources Used to Finance Net Cost of Operations	1,043	(69,539)	301,239	232,743	2,234	(58,534)	329,444	273,144
Components Requiring or Generating Resources in Future Periods								
Future Funded Expenses	9,873	-	-	9,873	6,354	-	141,761	148,115
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	9,873	-	-	9,873	6,354	-	141,761	148,115
Components not Requiring or Generating Resources								
Depreciation and Amortization	243	-	2,426	2,669	2	-	20	22
Revaluation of Assets or Liabilities	-	-	-	-	(4)	-	-	(4)
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	243	-	2,426	2,669	(2)	-	20	18
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	10,116	-	2,426	12,542	6,352	-	141,781	148,133
Net Cost of Operations	<u>\$ 11,159</u>	<u>(69,539)</u>	<u>303,665</u>	<u>245,285</u>	<u>8,586</u>	<u>(58,534)</u>	<u>471,225</u>	<u>421,277</u>

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Supplemental Information Consolidating Intra-governmental Balances

As of and for the years ended September 30, 2003 and 2002

(in thousands)

<u>Department</u>	<u>Intra-governmental balance description</u>	2003				2002			
		<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>Federal Supplemental D.C. Pension Fund</u>	<u>D.C. Federal Pension Liability Trust Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>Federal Supplemental D.C. Pension Fund</u>	<u>D.C. Federal Pension Liability Trust Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>
	Assets:								
Treasury	Fund Balance with Treasury	\$ 28	1	245	274	28	1	242	271
Treasury	Interest receivable from GAS securities	1,280	21,416	31,413	54,109	1,267	19,070	37,160	57,497
Treasury	Investments in GAS securities, net	95,789	1,738,844	2,107,764	3,942,397	90,632	1,402,451	2,462,990	3,956,073
	Total intra-governmental assets	\$ 97,097	1,760,261	2,139,422	3,996,780	91,927	1,421,522	2,500,392	4,013,841
	Liabilities:								
Treasury	Accounts Payable	\$ 5	—	48	53	—	—	1	1
OPM	Accounts Payable	—	—	—	—	18	—	160	178
Gen Fund	Accrued Payroll & Benefits	—	—	2	2	—	—	2	2
OPM	Accrued Payroll & Benefits	1	—	6	7	1	—	4	5
	Total intra-governmental liabilities	\$ 6	—	56	62	19	—	167	186
	Revenues:								
Treasury	Interest earned from GAS Securities	\$ 5,169	69,539	120,836	195,544	5,050	58,534	141,556	205,140
OPM	Imputed Financing Sources	15	—	140	155	12	—	112	124
	Total intra-governmental revenues	\$ 5,184	69,539	120,976	195,699	5,062	58,534	141,668	205,264
	Expenses:								
Treasury	Contractual Services	\$ 362	—	2,823	3,185	202	—	1,544	1,746
Labor	Contractual Services	9	—	77	86	20	—	180	200
OPM	Contractual Services	—	—	—	—	18	—	162	180
GSA	Contractual Services	4	—	32	36	7	—	62	69
GPO	Contractual Services	3	—	37	40	—	—	—	—
OPM	Employee Benefits Expense	25	—	222	247	21	—	187	208
Gen Fund	Employee Benefits Expense	9	—	83	92	7	—	63	70
OPM	Imputed Costs (OPEB)	15	—	140	155	12	—	111	123
	Total intra-governmental expenses	\$ 427	—	3,414	3,841	287	—	2,309	2,596

See accompanying independent auditors' report.

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS

Investments in GAS Securities - Net By Fund

As of September 30, 2003 and 2002

(in thousands)

	2003				2002			
	Cost	Unamortized Premium (Discount)	Investments Net	Market Value	Cost	Unamortized Premium (Discount)	Investments Net	Market Value
D. C. Judicial Retirement and Survivors Annuity Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ 6,330	-	6,330	6,330	3,255	-	3,255	3,255
Non-marketable Market-based	87,663	1,796	89,459	100,490	85,718	1,659	87,377	99,885
Total	\$ <u>93,993</u>	<u>1,796</u>	<u>95,789</u>	<u>106,820</u>	<u>88,973</u>	<u>1,659</u>	<u>90,632</u>	<u>103,140</u>
Federal Supplemental D.C. Pension Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ -	-	-	-	-	-	-	-
Non-marketable Market-based	1,648,842	90,002	1,738,844	1,869,031	1,351,503	50,948	1,402,451	1,539,664
Total	\$ <u>1,648,842</u>	<u>90,002</u>	<u>1,738,844</u>	<u>1,869,031</u>	<u>1,351,503</u>	<u>50,948</u>	<u>1,402,451</u>	<u>1,539,664</u>
D.C. Federal Pension Liability Trust Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ 203,605	-	203,605	203,605	120,345	-	120,345	120,345
Non-marketable Market-based	1,867,012	37,147	1,904,159	2,021,715	2,306,757	35,888	2,342,645	2,518,118
Total	\$ <u>2,070,617</u>	<u>37,147</u>	<u>2,107,764</u>	<u>2,225,320</u>	<u>2,427,102</u>	<u>35,888</u>	<u>2,462,990</u>	<u>2,638,463</u>

See accompanying independent auditors' report.

U.S. DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Investments in Nonmarketable Market-Based GAS Securities - Net By Fund and Maturity

As of September 30, 2003 and 2002

(in thousands)

	2003				2002			
	D.C. Judicial Retirement and Survivors Annuity Fund	Federal Supplemental D.C. Pension Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	Federal Supplemental D.C. Pension Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total
Time of Maturity								
Less than or equal to 1 year	\$ -	-	517,740	517,740	-	-	545,645	545,645
More than 1 year and less than or equal to 5 years	35,022	787,577	1,386,419	2,209,018	-	294,486	1,797,000	2,091,486
More than 5 years and less than or equal to 10 years	54,437	951,267	-	1,005,704	76,846	1,107,965	-	1,184,811
More than 10 years	-	-	-	-	10,531	-	-	10,531
Total	\$ <u>89,459</u>	<u>1,738,844</u>	<u>1,904,159</u>	<u>3,732,462</u>	<u>87,377</u>	<u>1,402,451</u>	<u>2,342,645</u>	<u>3,832,473</u>

See accompanying independent auditors' report.

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS

Administrative Expenses - By Fund

For the years ended September 30, 2003 and 2002

(in thousands)

	2003			2002		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total
Salaries and Related Benefits	\$ 265	2,340	2,605	216	1,952	2,168
Contractual Services	666	12,010	12,676	1,555	8,747	10,302
Rent	67	606	673	35	313	348
Noncapitalized Equipment/Software	277	2,739	3,016	73	659	732
Other	5	51	56	1	9	10
Total Administrative Expenses	\$ <u>1,280</u>	<u>17,746</u>	<u>19,026</u>	<u>1,880</u>	<u>11,680</u>	<u>13,560</u>

See accompanying independent auditors' report.

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS

Pension Expense - By Fund

For the years ended September 30, 2003 and 2002

(in thousands)

	2003			2002		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Liability Trust Fund	Consolidated D.C. Pension Funds Total
Normal Cost	\$ 4,000	-	4,000	3,700	-	3,700
Actuarial (Gains) Losses During the Period	4,583	(80,862)	(76,279)	2,067	108,701	110,768
Interest on Pension Liability During the Period	6,900	482,300	489,200	6,500	474,400	480,900
Judges Refund Payments	86	-	86	-	-	-
Longevity Pension Pay Adjustment	-	5,318	5,318	-	18,000	18,000
Total Pension Expense	<u>\$ 15,569</u>	<u>406,756</u>	<u>422,325</u>	<u>12,267</u>	<u>601,101</u>	<u>613,368</u>

See accompanying independent auditors' report.



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

The Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, and financing and combined statements of budgetary resources for the years then ended, and have issued our report thereon dated November 5, 2003. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our FY2003 audit, we considered ODCP's internal control over financial reporting by obtaining an understanding of ODCP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on ODCP's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in ODCP's Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.





This report is intended solely for the information and use of ODCP's management, the U.S. Department of the Treasury Office of Inspector General, OMB, GAO, and Congress and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

November 5, 2003



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

The Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, and financing and combined statements of budgetary resources for the years then ended, and have issued our report thereon dated November 5, 2003. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of ODCP is responsible for complying with laws and regulations applicable to ODCP. As part of obtaining reasonable assurance about whether ODCP's fiscal year 2003 financial statements are free of material misstatement, we performed tests of ODCP's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to ODCP. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether ODCP's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements. The results of our tests disclosed no instances in which ODCP's financial management systems did not substantially comply with these three requirements.





This report is intended solely for the information and use of ODCP's management, the U.S. Department of the Treasury Office of Inspector General, OMB, and Congress and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

November 5, 2003